

PRESCOTT COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

June 30, 2004

DRAFT COPY FOR REVIEW
AND DISCUSSION
PURPOSES ONLY

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PRESCOTT COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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Board of Education
(Before September, 2003 Election)

Karl McCarty	President	2003
Kevin Schafer	Vice President	2004
Kathy West	Board Member	2004
Matt Wood	Board Member	2005
Marnie Cline	Board Member	2005

Board of Education
(After September, 2003 Election)

Kevin Schafer	President	2004
Marnie Cline	Vice President	2005
Kyle Chafa (appointed 7/19/04)	Board Member	2004
Kathy West	Board Member	2004
Matt Wood (resigned 6/21/04)	Board Member	2005
Randy Cooper	Board Member	2006

School Officials

Eric Wood	Superintendent	2004
Melissa Baker	District Secretary/Treasurer	2004
Reynoldson, Van Werden & Reynoldson, LLP	Attorney	2004



Independent Auditor's Report

To the Board of Education
Prescott Community School District
Prescott, Iowa

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Prescott Community School District, Prescott, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Prescott Community School District as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 10 to the financial statements, during the year ended June 30, 2004, Prescott Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments; Statement No. 37, Basic Financial Statements and Management's Discussion and Analysis; Omnibus; Statement No. 38, Certain Financial Statement Note Disclosure; Statement No. 41, Budgetary Comparison Schedule - Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Governmental Auditing Standards, we have also issued our reports dated August 17, 2004, on our consideration of the Prescott Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 16 and 40 through 43 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Prescott Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003, (none of which are presented herein) and expressed qualified opinions on those financial statements. Other supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Van Maanen & Associates, P.C.
Certified Public Accountants

August 17, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Prescott Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Because the District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations.

Financial Highlights

- General Fund revenues decreased from \$1,020,896 in fiscal 2003 to \$913,888 in fiscal 2004, while General Fund expenditures decreased from \$971,680 in fiscal 2003 to \$911,380 in fiscal 2004. This resulted in an increase in the District's General Fund balance from \$254,628 in fiscal 2003 to \$255,136 in fiscal 2004, a 0.2 percent increase from the prior year.
- The decrease in General Fund revenues was attributable mainly to a decrease in property taxes. The decrease in expenditures was due primarily to a decrease in salary and benefits and tuition and open enrollment expenditures. One teaching position was reduced by 0.7 FTE.
- The District began receiving local option sales tax money in fiscal 2004. The district used this money to build a new bus barn and replace some old doors.
- The District received a Fire Safety Grant and a School Renovation grant. With those funds the District was able to build a new fire escape and replace some doors and fire escape windows.
- During the year ended June 30, 2004, the State of Iowa imposed a 2.5% reduction in State Foundation aid, which reduced the General Fund revenues by \$10,060. The State then reimbursed 10% of the reduction, which amounted to \$1,006 to the District. The net loss of State Foundation aid to the District was \$9,054.
- Since the reduction occurred mid year, the District had already obligated the resources to fund fiscal 2004 salaries and programs. The District responded to the reduction by using a combination of reducing expenditures and using a portion of the fund balance.
- In spite of this reduction the District's General Fund balance increased to \$255,136 in fiscal 2004 compared to \$254,628 in fiscal 2003.

(a) Overview of the Financial Statements

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *Government-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the Government-wide statements.
- The statements for *governmental funds* explain how basic services, such as regular and special education, were financed in the short term as well as what remains for future spending.
- The statements for *proprietary funds* offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.
- The statements for *fiduciary funds* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

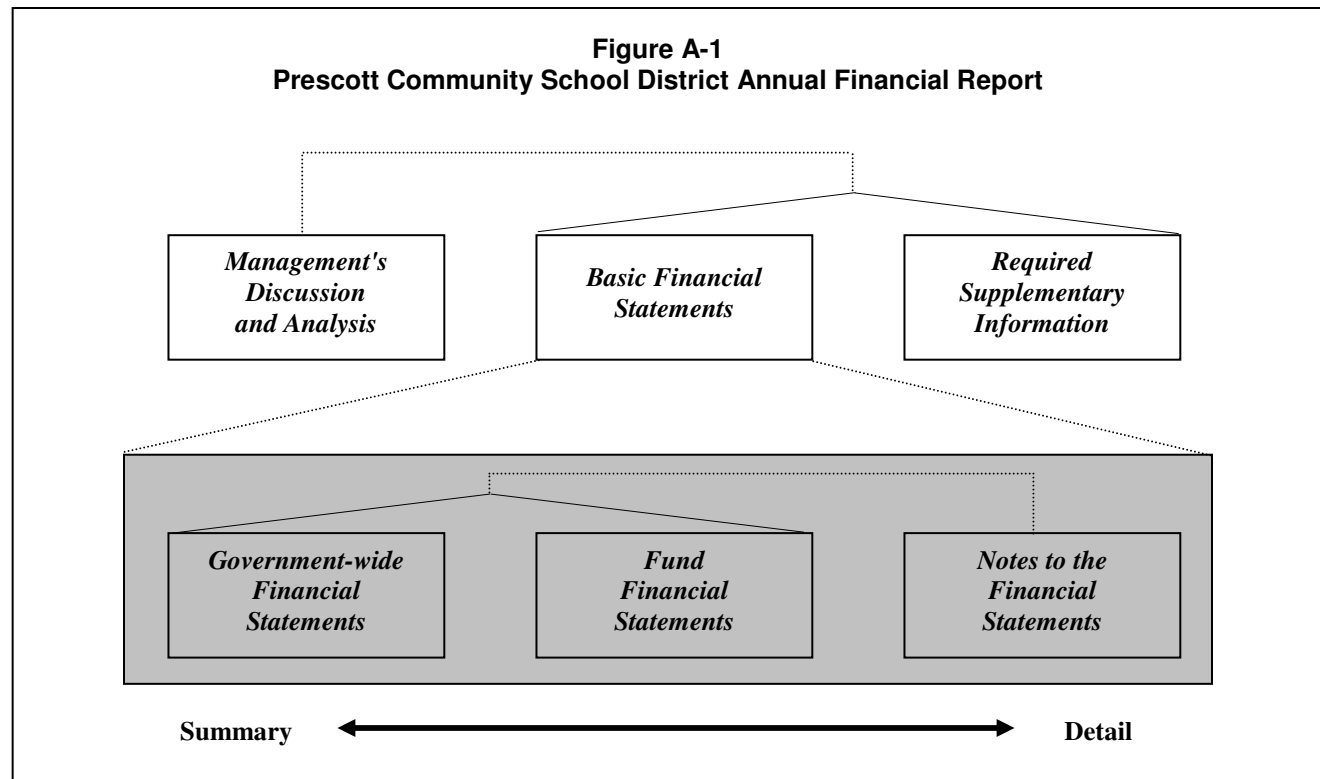


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2
Major Features of the Government-Wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

Government-wide Statements

The Government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two Government-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the Government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities*: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities*: The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- *Governmental funds*: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the Government-wide statements, additional information at the bottom of the governmental fund statements explains the relationship or differences between the two statements.

- The District's governmental funds include the General Fund, Special Revenue Funds, and Capital Projects Fund.
- *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the Government-wide statements.
 - The District's enterprise funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.
- *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others, such as the Parent-Teacher Organization (PTO) Funds.
 - Parent-Teacher Organization (PTO) Funds – The District accounts for assets belonging to the Parent-Teacher Organization in this fund.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the Government-wide financial statements because it cannot use these assets to finance its operations.

(b) – (c) Financial Analysis of the District as a Whole

Net assets - Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2004 compared to 2003.

**Figure A-3
Condensed Statement of Net Assets**

	Governmental activities		Business type activities		Total		Total Change
	June 30,		June 30,		June 30,		June 30,
	2004	2003	2004	2003	2004	2003	2003-2004
Current and other assets	\$ 786,252	853,989	3,550	3,706	789,802	857,695	-7.9%
Capital assets	324,056	259,206	2,258	2,613	326,314	261,819	24.6%
Total assets	1,110,308	1,113,195	5,808	6,319	1,116,116	1,119,514	-0.3%
Long-term debt outstanding	-	-	-	-	-	-	-
Other liabilities	449,927	506,872	1,893	-	451,820	506,872	-10.9%
Total liabilities	449,927	506,872	1,893	-	451,820	506,872	-10.9%
Net assets							
Invested in capital assets, net of related debt	324,056	259,206	2,258	2,613	326,314	261,819	24.6%
Restricted	1,775	10,796	-	-	1,775	10,796	
Unrestricted	334,550	336,321	1,657	3,706	336,207	340,027	-1.1%
Total net assets	\$ 660,381	606,323	3,915	6,319	664,296	612,642	8.4%

The District's combined net assets increased by 8.4% to \$664,296. The improvement in the financial position came solely from governmental activities increase in Capital Assets. The net assets of the District's business type activities decreased by 38%, which is due to the fact the District has held down lunch prices, even though costs have continued to increase, in order to not create an undue hardship to students' families. The District's governmental activities have helped to support the Lunch program.

Capital assets have increased due to a number of projects completed using PPEL funds, proceeds from the local one-cent sales tax, and proceeds from grant money. Projects completed include a fire escape, a bus barn, and installation of a fire/smoke alarm.

The District decreased other liabilities by 10.9%. This was mainly due to a substantial decrease in accounts payable because in fiscal year 2003 the District received a tuition/open enrollment bill much later than usual. Normally, tuition and open enrollment bills are paid during the fiscal year and not recorded as a payable.

Changes in net assets – Figure A-4 shows the changes in net assets for the year ended June 30, 2004. Since this is the first year for preparation of financial statements in accordance with GASB 34, revenue and expense comparisons to fiscal year 2003 are not available. Comparison data will be presented in subsequent years.

**Figure A-4
Changes in Net Assets**

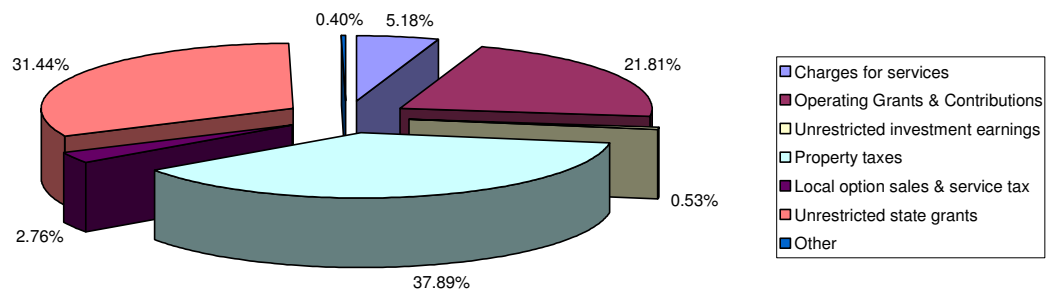
	Governmental Activities	Business type Activities	Total District
Revenues:			
Program revenues:			
Charges for service	\$ 44,258	10,057	54,315
Operating grants, contributions and restricted interest	217,745	10,814	228,559
Capital grants, contributions and restricted interest	-	-	-
General revenues:			
Property tax	397,130	-	397,130
Local option sales and service tax	28,928	-	28,928
Unrestricted state grants	329,505	-	329,505
Unrestricted investment earnings	5,538	3	5,541
Other	4,134	42	4,176
Transfers between governmental and business-type activities	(2,000)	2,000	-
Total revenues	<u>1,025,238</u>	<u>22,916</u>	<u>1,048,154</u>
Program expenses:			
Governmental activities			
Instruction	581,320	-	581,320
Support services	255,579	-	255,579
Non-instructional programs	236	25,320	25,556
Other expenses	134,045	-	134,045
Total expenses	<u>971,180</u>	<u>25,320</u>	<u>996,500</u>
Change in net assets	<u>\$ 54,058</u>	<u>(2,404)</u>	<u>51,654</u>

As shown in Figure A-4, property tax and unrestricted state grants account for 70.87% of the funding for governmental activities, while charges for services and operating grants and contributions make up 91.08% of the funding for business type activities. The District's expenses primarily relate to instruction and support services, which account for 83.98% of the total expenses.

Figure A-5 shows the split of funding from various sources. The District has total revenues of \$1,048,154 of which \$1,025,238 was for governmental activities and \$22,916 was for business type activities. The District's predominate revenues are related to property taxes, unrestricted state grants, and operating grants and contributions at 37.89%, 31.44% and 21.81% respectively.

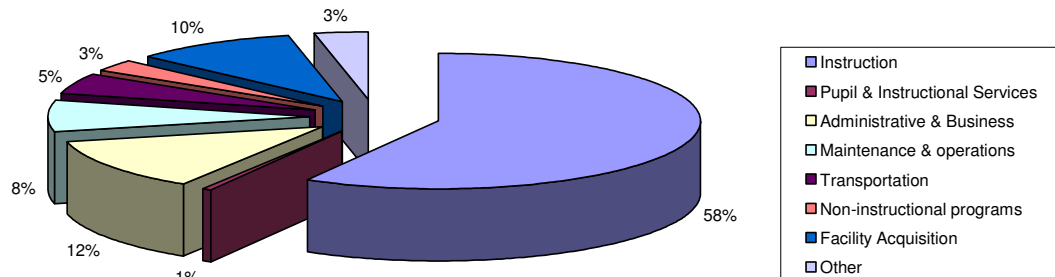
Total revenues surpassed expenses, increasing net assets \$51,654 over last year. Only the governmental activities contributed to this increase. Business type activities had a decrease in net assets of \$2,404.

**Figure A-5
Sources of Revenue for Fiscal Year 2004**



The District's predominant expenses are related to instruction at 58%, as can be seen in Figure A-6. Another 12% is related to administrative and business and 10% to facility acquisition.

**Figure A-6
Expenses for Fiscal Year 2004**



Governmental Activities

Revenues for governmental activities were \$1,025,238 while total expenses amounted to \$971,180.

Figure A-7 presents the cost of four major District activities: instruction, support service, non-instructional and other expenses. The table also shows each activity's *net cost* (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on the District's taxpayers by each of these functions.

Figure A-7
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 581,320	353,135
Support services	255,579	254,670
Non-instructional programs	236	236
Other expenses	134,045	101,136
Totals	<u>\$ 971,180</u>	<u>709,177</u>

- The cost of all governmental activities this year was \$971,180.
- Total costs of services were decreased by the following revenues: Federal and state government grants and contributions totaling \$217,745 and \$44,258 from charges for services.
- The net cost of governmental activities of \$709,177 was financed with \$397,124 in property tax, \$329,505 in unrestricted state grants, \$28,928 in local option sales tax, and \$5,544 in interest income.

Business Type Activities

Revenues of the District's business type activities were \$22,916 and expenses were \$25,320. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements, investment income, and interfund transfers. (See Figure A-4)

Charges for services were \$10,057 or 43.89% of revenue. This represents the amount paid by students/staff for daily food service. Federal and state reimbursement for meals, including payments for free and reduced lunches, was \$10,814 or 47.19% of revenue.

(d) Financial Analysis of the District's Funds

As previously noted, the Prescott Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$336,325, slightly below last year's ending fund balances of \$347,117. The primary reason for the decrease in combined fund balances in fiscal 2004 is due to the payment of construction projects using some of the carryover fund balances.

Governmental Fund Highlights

- The General Fund balance increased from \$254,628 to \$255,136, staying essentially the same. The district had a decrease in revenues of over \$100,000, and responded with a decrease in expenditures of over \$60,000.

- The Physical Plant and Equipment Levy (PEEL) Fund balance decreased from \$26,002 in fiscal 2003 to \$5,364 in fiscal 2004. While revenues remained approximately the same, the District increased spending from the PEEL Fund in order to fund some projects including a new fire escape, installation of a fire/smoke alarm system, and installation of new doors and windows.
- The Capital Projects Fund balance increased from \$0.00 to \$6,923. This was the District's first year to receive Local Option Sales Tax money, which was used to build a bus barn and to replace some aging doors.

Proprietary Fund Highlights

The School Nutrition Fund balance decreased from \$6,319 to \$3,915. Revenues were approximately the same as the prior year, and expenses increased approximately \$1,000. Lunch prices will be increased for the next year in order to stabilize the Nutrition fund balance.

(e) Budgetary Highlights

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except its private-purpose trust and agency funds. This is referred to as the certified budget. The certified budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's certified budget is prepared on the cash basis. Over the course of the year, the District amended its certified budget for 2003-04 one time to reflect additional revenue and expenditures associated with the Local Option Sales Tax and the Fire Safety Grant activity.

The District's total actual receipts were approximately \$34,000 less than the total budgeted receipts, a variance of 3.15%. The most significant change resulted in the District receiving less in various components of state aid than originally anticipated.

Total expenditures were less than budgeted due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed the actual expenditures during the year.

A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report.

(f) Capital Asset and Debt Administration

Capital Assets

At June 30, 2004, the District had invested \$326,314, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, and equipment and furniture. (See Figure A-8) This amount represents a net increase of 24.6 percent from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was approximately \$36,000.

The largest change in capital asset activity during the year occurred in the buildings category. The District's buildings and improvements totaled \$180,274 net of depreciation at June 30, 2004, compared to \$94,460 net reported at June 30, 2003. Capital assets activities included the construction of a new fire escape, installation of a fire/smoke alarm, and replacement of aging doors and windows funded by a Fire Safety grant, a School Renovation grant and the PEEL fund. The construction of a bus barn and replacement of additional aging doors were funded by Local Option Sales Tax revenue.

Figure A-8
Capital Assets, Net of Depreciation

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2004	2003	2004	2003	2004	2003	2003-2004
Land	\$ 20,000	\$ 20,000	-	-	20,000	20,000	0.0%
Buildings	180,274	94,460	-	-	180,274	94,460	90.8%
Equipment and furniture	123,782	144,746	2,258	2,613	126,040	147,359	-14.5%
Total	\$ 324,056	\$ 259,206	2,258	2,613	326,314	261,819	24.6%

Long-Term Debt

At June 30, 2004, the District had no general obligation or other long-term debt outstanding.

(h) Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of two existing circumstances that could significantly affect its financial health in the future:

- Although the District has experienced a slight decline in enrollment for the past two years, the District expects this to level off at or near the current level.
- The district will continue to improve the facilities with the use of the one-cent sales tax revenue. This will, in turn, increase the District's capital assets.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Melissa Baker, District Secretary/Treasurer and Business Manager, Prescott Community School District, 813 1st Street, Prescott, Iowa, 50859.

Basic Financial Statements

PRESCOTT COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2004

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and cash equivalents	\$ 359,435	2,447	361,882
Receivables:			
Property tax:			
Delinquent	7,407	-	7,407
Succeeding year	372,135	-	372,135
Local Option Sales & Services tax	2,809	-	2,809
Accounts	13,044	-	13,044
Interfund receivable	30,000	-	30,000
Due from other governments	212	-	212
Inventories	-	1,103	1,103
Prepaid expenses	1,210	-	1,210
Capital assets, net of accumulated depreciation (note 5)	324,056	2,258	326,314
Total assets	1,110,308	5,808	1,116,116
Liabilities			
Accounts payable	2,000	131	2,131
Salaries and benefits payable	45,792	1,762	47,554
Interfund payable	30,000	-	30,000
Deferred revenue:			
Succeeding year property tax	372,135	-	372,135
Total liabilities	449,927	1,893	451,820
Net assets			
Invested in capital assets, net of related debt	324,056	2,258	326,314
Restricted for:			
Phase III	169	-	169
Farm Bureau Grant	233	-	233
Other	1,501	-	1,501
Unrestricted	334,422	1,657	336,079
Total net assets	\$ 660,381	3,915	664,296

See notes to financial statements.

PRESCOTT COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2004

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business type Activities	Total
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 390,524	44,258	153,736	(192,530)	-	(192,530)
Special instruction	129,990	-	30,191	(99,799)	-	(99,799)
Other instruction	60,806	-	-	(60,806)	-	(60,806)
	<u>581,320</u>	<u>44,258</u>	<u>183,927</u>	<u>(353,135)</u>	<u>-</u>	<u>(353,135)</u>
Support Service:						
Student services	-	-	-	-	-	-
Instructional staff services	5,171	-	-	(5,171)	-	(5,171)
Administration services	124,555	-	-	(124,555)	-	(124,555)
Operating and maintenance of plant services	75,752	-	-	(75,752)	-	(75,752)
Transportation services	50,101	-	909	(49,192)	-	(49,192)
	<u>255,579</u>	<u>-</u>	<u>909</u>	<u>(254,670)</u>	<u>-</u>	<u>(254,670)</u>
Non-instructional programs	<u>236</u>	<u>-</u>	<u>-</u>	<u>(236)</u>	<u>-</u>	<u>(236)</u>
Other expenditures:						
Facilities acquisition	101,136	-	-	(101,136)	-	(101,136)
AEA flowthrough	32,909	-	32,909	-	-	-
	<u>134,045</u>	<u>-</u>	<u>32,909</u>	<u>(101,136)</u>	<u>-</u>	<u>(101,136)</u>
Total governmental activities	<u>971,180</u>	<u>44,258</u>	<u>217,745</u>	<u>(709,177)</u>	<u>-</u>	<u>(709,177)</u>
Business type activities:						
Non-instructional programs:						
Nutrition services	25,320	10,057	10,814	-	(4,449)	(4,449)
Total	<u>\$ 996,500</u>	<u>54,315</u>	<u>228,559</u>	<u>(709,177)</u>	<u>(4,449)</u>	<u>(713,626)</u>
General Revenues:						
Property tax levied for:						
General purposes				\$ 361,430	-	361,430
Debt service				-	-	-
Capital outlay				64,622	-	64,622
Unrestricted state grants				329,505	-	329,505
Unrestricted investment earnings				5,544	3	5,547
Other				4,134	42	4,176
Transfers between governmental and business type activities				(2,000)	2,000	-
Total general revenues				<u>763,235</u>	<u>2,045</u>	<u>765,280</u>
Change in net assets				54,058	(2,404)	51,654
Net assets beginning of year, as restated (note 10)				<u>606,323</u>	<u>6,319</u>	<u>612,642</u>
Net assets end of year				<u>\$ 660,381</u>	<u>3,915</u>	<u>664,296</u>

See notes to financial statements.

PRESCOTT COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2004

	Major Special Revenue Funds				Nonmajor Special Revenue Fund	
	General	Capital Projects	Management	PPEL	Student Activity	Total
Assets						
Cash and pooled investments	\$ 251,421	4,114	67,543	35,272	1,085	359,435
Receivables:						
Property tax:						
Delinquent	6,464	-	277	666	-	7,407
Succeeding year	318,357	-	21,499	32,279	-	372,135
Local Option Sales & Services tax	-	2,809	-	-	-	2,809
Accounts	13,044	-	-	-	-	13,044
Interfund receivable	30,000	-	-	-	-	30,000
Due from other governments	212	-	-	-	-	212
Prepaid expenses	1,210	-	-	-	-	1,210
Total assets	\$ 620,708	6,923	89,319	68,217	1,085	786,252
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ 1,423	-	-	574	3	2,000
Salaries and benefits payable	45,792	-	-	-	-	45,792
Interfund payable	-	-	-	30,000	-	30,000
Deferred revenue:						
Succeeding year property tax	318,357	-	21,499	32,279	-	372,135
Total liabilities	365,572	-	21,499	62,853	3	449,927
Fund balances:						
Reserved for:						
Farm Bureau Grant	233	-	-	-	-	233
Phase III	169	-	-	-	-	169
Other	1,501	-	-	-	-	1,501
Unreserved:						
Undesignated	253,233	6,923	67,820	5,364	1,082	334,422
Total fund balances	255,136	6,923	67,820	5,364	1,082	336,325
Total liabilities and fund balances	\$ 620,708	6,923	89,319	68,217	1,085	786,252

See notes to financial statements.

PRESCOTT COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2004

Total fund balances of governmental funds (pg. 20)	\$ 336,325
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.

324,056
<hr/>

Net assets of governmental activities (pg. 18)	<u><u>\$ 660,381</u></u>
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See notes to financial statements.

PRESCOTT COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
Year ended June 30, 2003

	Major Special Revenue Funds				Nonmajor Special Revenue Fund	
	General	Capital Projects	Management	PPEL	Student Activity	Total
Revenues:						
Local sources:						
Local tax	\$ 346,558	28,928	14,872	35,694	-	426,052
Tuition	37,595	-	-	-	-	37,595
Other	13,933	6	357	306	1,450	16,052
Intermediate sources	150	-	-	-	-	150
State sources	467,689	-	11	26	-	467,726
Federal sources	47,963	-	-	31,700	-	79,663
Total revenues	913,888	28,934	15,240	67,726	1,450	1,027,238
Expenditures:						
Current:						
Instruction:						
Regular instruction	450,340	-	3,312	-	-	453,652
Special instruction	129,003	-	-	-	-	129,003
Other instruction	58,051	-	-	1,999	2,259	62,309
	637,394	-	3,312	1,999	2,259	644,964
Support services:						
Instructional staff services	5,171	-	-	-	-	5,171
Administration services	129,480	-	3,926	7,347	-	140,753
Operation and maintenance of plant services	55,612	-	2,630	-	-	58,242
Transportation services	50,578	-	2,041	-	-	52,619
	240,841	-	8,597	7,347	-	256,785
Non-instructional programs	236	-	-	-	-	236
Other expenditures:						
Facilities acquisition	-	22,011	107	79,018	-	101,136
AEA flowthrough	32,909	-	-	-	-	32,909
	32,909	22,011	107	79,018	-	134,045
Total expenditures	911,380	22,011	12,016	88,364	2,259	1,036,030
Excess (deficiency) of revenues over (under) expenditures	2,508	6,923	3,224	(20,638)	(809)	(8,792)
Other financing uses:						
Operating transfers out	(2,000)	-	-	-	-	(2,000)
Total other financing uses	(2,000)	-	-	-	-	(2,000)
Net change in fund balances	508	6,923	3,224	(20,638)	(809)	(10,792)
Fund balances beginning of year	254,628	-	64,596	26,002	1,891	347,117
Fund balances end of year	\$ 255,136	6,923	67,820	5,364	1,082	336,325

See notes to financial statements.

PRESCOTT COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 Year ended June 30, 2004

Net change in fund balances - total governmental funds (pg. 22) \$ (10,792)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$	101,265	
Depreciation expense		(36,415)	64,850

Change in net assets of governmental activities (pg. 19) \$ 54,058

See notes to financial statements.

PRESCOTT COMMUNITY SCHOOL DISTRICT
 STATEMENT OF NET ASSETS
 PROPRIETARY FUND
 June 30, 2004

	School Nutrition
Assets	
Cash and pooled investments	\$ 2,447
Inventories	1,103
Capital assets, net of accumulated depreciation	2,258
Total assets	5,808
Liabilities	
Accounts payable	131
Salaries and benefits payable	1,762
Total liabilities	1,893
Net Assets	
Invested in capital assets, net of related debt	2,258
Unrestricted	1,657
Total net assets	\$ 3,915

See notes to financial statements.

PRESCOTT COMMUNITY SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUND
 Year ended June 30, 2004

	<u>School Nutrition</u>
Operating revenues:	
Local sources:	
Charges for service	<u>\$ 10,057</u>
Operating expenses:	
Non-instructional programs	
Food Service operations:	
Salaries	10,189
Benefits	4,537
Supplies	10,239
Depreciation	355
	<u>25,320</u>
Operating loss	<u>(15,263)</u>
Non-operating revenues:	
Local sources	42
State sources	357
Federal sources	10,457
Interest Income	3
	<u>10,859</u>
Change in net assets	(4,404)
Other financing sources:	
Interfund transfers	2,000
Net assets beginning of year	<u>6,319</u>
Net assets end of year	<u><u>\$ 3,915</u></u>

See notes to financial statements.

PRESCOTT COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
June 30, 2004

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 10,157
Cash paid to employees for services	(12,964)
Cash paid to suppliers for goods or services	(8,132)
Net cash used in operating activities	<u>(10,939)</u>
Cash flows from non-capital financing activities:	
Other local sources	42
State grants received	357
Federal grants received	8,517
Interfund transfers	2,000
Net cash provided by non-capital financing activities	<u>10,916</u>
Cash flows from investing activities:	
Interest on investments	<u>3</u>
Net decrease in cash and cash equivalents	(20)
Cash and cash equivalents at beginning of year	<u>2,467</u>
Cash and cash equivalents at end of year	<u><u>\$ 2,447</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (15,263)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:	
Commodities used	1,940
Depreciation	355
Decrease in receivables	100
Decrease in inventories	36
Increase in salaries and benefits payable	1,762
Increase in accounts payable	131
Net cash used in operating activities	<u><u>\$ (10,939)</u></u>
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:	
Current assets:	
Cash and investments	\$ 2,447
Cash and cash equivalents at year end	<u><u>\$ 2,447</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2004, the District received \$1,940 of federal commodities.

See notes to financial statements.

PRESCOTT COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
June 30, 2004

	Agency Fund
Assets	
Cash and pooled investments	\$ 4,512
Liabilities	
Other payables	4,512
Net assets	\$ -

See notes to financial statements

PRESCOTT COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(1) Summary of Significant Accounting Policies

Prescott Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades pre-kindergarten through twelve and special education. The geographic area served includes the City of Prescott, Iowa and the predominately agricultural territory in Adams County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Prescott Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Prescott Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organization - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Adams County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

PRESCOTT COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The Management Fund is a Special Revenue Fund used to account for revenues derived from specific services which are usually required by law or regulation to be accounted for in a separate fund.

The PPEL Fund is a Special Revenue Fund used to account for revenues derived from specific sources which are usually required by law or regulation to be accounted for in a separate fund.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

The District also reports a fiduciary fund whose focus is on net assets. The District's fiduciary fund is:

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

PRESCOTT COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

PRESCOTT COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2003.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

PRESCOTT COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Currently the district has not established a written capitalization threshold policy. The general policy is to capitalize assets with an initial individual cost in excess of \$500 and estimated useful life in excess of two years. The district is currently in the process of establishing a written policy as such.

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings and improvements	20-40 years
Furniture and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees do not accumulate earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

PRESCOTT COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) Cash and Pooled Investments

The District's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$245,067 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Statement No. 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment Trust is not subject to risk categorization.

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2004 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Special Revenue:	
	Physical Plant and Equipment Levy	<u>\$30,000</u>

The District approved the loan in a prior year. The terms of the loan include a repayment rate of \$10,000 per year plus 7% interest annually until paid off. Over the course of the current fiscal year, \$10,000 principle, plus interest was repaid.

(4) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Proprietary Fund:		
School Nutrition	General	<u>\$2,000</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources. The board voted to raise meal prices in an effort to see the School Nutrition fund become self-supporting.

PRESCOTT COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(5) Capital Assets

Capital assets activity for the year ended June 30, 2004 was as follows:

	Balance Beginning of Year, as restated (note 10)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 20,000	-	-	20,000
Total capital assets not being depreciated	20,000	-	-	20,000
Capital assets being depreciated:				
Buildings and improvements	336,499	96,066	-	432,565
Furniture and equipment	297,617	5,199	-	302,816
Total capital assets being depreciated	634,116	101,265	-	735,381
Less accumulated depreciation for:				
Buildings and improvements	242,039	10,252	-	252,291
Furniture and equipment	152,871	26,163	-	179,034
Total accumulated depreciation	394,910	36,415	-	431,325
Total capital assets being depreciated, net	239,206	64,850	-	304,056
Governmental activities capital assets, net	\$ 259,206	64,850	-	324,056
Business type activities:				
Furniture and equipment	\$ 7,432	-	-	7,432
Less accumulated depreciation	4,819	355	-	5,174
Business type activities capital assets, net	\$ 2,613	(355)	-	2,258

Depreciation expense was charged by the District as follows:

Governmental activities:

Instruction:

Regular	\$ 18,020
Special	1,775
Other	700

Support services:

Administration	1,130
Operation and maintenance of plant	181
Transportation	14,609
	36,415

Unallocated depreciation

Total governmental activities depreciation expense	\$ 36,415
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Business type activities:

Food services	\$ 355
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PRESCOTT COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(6) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306 9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$22,394, \$22,242 and \$22,086, respectively, equal to the required contributions for each year.

(7) Risk Management

Prescott Community School District is a member in the Iowa School Employees Benefits Association, an Iowa Code Chapter 28E organization. The Iowa School Employees Benefits Association (ISEBA) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. ISEBA was formed July, 1999 for the purpose of managing and funding employee benefits. ISEBA provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

Each member's contributions to ISEBA funds current operations and provides capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, ISEBA's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the fiscal year ended June 30, 2004, 2003 and 2002 were \$12,516, \$16,203 and \$14,515, respectively.

Payments from participating members are the sole source for paying claims and establishing reserves for the ISEBA self-funded programs. Stop loss insurance is purchased by ISEBA to protect against large claims but the potential exists for claims to exceed the premium payments made by members into the program. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be reasonably estimated. Accordingly, at June 30, 2003, no liability has been recorded in the District's financial statements. As of June 30, 2003, settled claims have not exceeded the risk pool or reinsurance company coverage.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw. ISEBA will pay claims incurred before the termination date.

PRESCOTT COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Prescott Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Related Party Transaction

The District had business transactions between the District and Graphic Ideas (a business in which Board Member Marnie Cline is an owner) for t-shirts totaling \$1,120 during the year ended June 30, 2004. There were no related party payables at June 30, 2004.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$32,909 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Accounting Change and Restatements

Governmental Accounting Standards Board Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, was implemented for the year ended June 30, 2004. The interpretation modifies when compensated absence and early retirement liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements separate the District's programs between governmental and business type activities. The beginning net assets for governmental activities has been restated to include capital assets, long-term liabilities and the changes in assets and liabilities at July 1, 2003 caused by the conversion to the accrual basis of accounting. As of July 1, 2003 the District had no long-term liabilities.

The effects of the accounting change and other restatements in the governmental activities are summarized as follows:

PRESCOTT COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

	Fund				Total
	General	Manage- ment	PPEL	Nonmajor Student Activity	
Net assets, June 30, 2003 as previously reported	\$ 254,628	64,596	26,002	1,891	347,117
Net assets, July 1, 2003, as restated for governmental funds	\$ 254,628	64,596	26,002	1,891	347,117
 GASB 34 adjustments:					
Capital assets, net of accumulated depreciation of \$394,910					<u>259,206</u>
 Net assets, July 1, 2003, as restated					<u>\$ 606,323</u>

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Required Supplementary Information

PRESCOTT COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES
 IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL
 FUNDS AND PROPRIETARY FUND
 REQUIRED SUPPLEMENTARY INFORMATION
 Year Ended June 30, 2004

	Governmental Funds- Actual	Proprietary Funds- Actual
Revenues:		
Local sources	\$ 481,100	10,202
Intermediate sources	150	-
State sources	467,726	357
Federal sources	79,663	10,457
Total revenues	<u>1,028,639</u>	<u>21,016</u>
Expenditures:		
Instruction	689,813	-
Support services	256,785	-
Noninstructional programs	-	23,036
Other expenditures	134,281	-
Total expenditures	<u>1,080,879</u>	<u>23,036</u>
Excess (deficiency) of revenues over (under) expenditures	(52,240)	(2,020)
Other financing sources, net	<u>(2,000)</u>	<u>2,000</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(54,240)	(20)
Balances beginning of year	<u>413,675</u>	<u>2,467</u>
Balances end of year	<u><u>\$ 359,435</u></u>	<u><u>2,447</u></u>

See accompanying independent auditor's report.

Total Actual	Budgeted Amounts		Final to Actual Variance- Positive (Negative)
	Original	Final	
491,302	484,262	484,262	7,040
150	-	-	150
468,083	532,479	532,479	(64,396)
90,120	67,000	67,000	23,120
1,049,655	1,083,741	1,083,741	(34,086)
689,813	901,567	901,567	211,754
256,785	346,437	346,437	89,652
23,036	43,200	43,200	20,164
134,281	85,273	160,273	25,992
1,103,915	1,376,477	1,451,477	347,562
(54,260)	(292,736)	(367,736)	313,476
-	1,000	1,000	(1,000)
(54,260)	(291,736)	(366,736)	312,476
416,142	455,376	455,376	(39,234)
361,882	163,640	88,640	273,242

PRESCOTT COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE - BUDGET TO GAAP RECONCILIATION
REQUIRED SUPPLEMENTARY INFORMATION
Year ended June 30, 2004

Governmental Funds						
General			Special Revenue			
	Cash	Accrual	Modified		Accrual	Modified
	Basis	Adjustments	Basis	Cash	Adjustments	Basis
				Basis		
Revenues	\$ 917,992	(4,104)	913,888	84,522	(106)	84,416
Expenditures	955,864	(44,484)	911,380	103,004	(365)	102,639
Net	(37,872)	40,380	2,508	(18,482)	259	(18,223)
Other financing sources (uses)	8,000	(10,000)	(2,000)	(10,000)	10,000	-
Beginning fund balances	281,293	(26,665)	254,628	132,382	(39,893)	92,489
Ending fund balances	\$ 251,421	3,715	255,136	103,900	(29,634)	74,266

Capital Projects			Total			
	Cash	Accrual	Modified		Accrual	Modified
	Basis	Adjustments	Basis	Cash	Adjustments	Basis
				Basis		
Revenues	\$ 26,125	2,809	28,934	1,028,639	(1,401)	1,027,238
Expenditures	22,011	-	22,011	1,080,879	(44,849)	1,036,030
Net	4,114	2,809	6,923	(52,240)	43,448	(8,792)
Other financing sources (uses)	-	-	-	(2,000)	-	(2,000)
Beginning fund balances	-	-	-	413,675	(66,558)	347,117
Ending fund balances	\$ 4,114	2,809	6,923	359,435	(23,110)	336,325

Proprietary Funds			
Enterprise			
	Cash	Accrual	Modified
	Basis	Adjustments	Basis
Revenues	\$ 21,016	(100)	20,916
Expenses	23,036	2,284	25,320
Net	(2,020)	(2,384)	(4,404)
Other financing sources (uses)	2,000	-	2,000
Beginning retained earnings	2,467	3,852	6,319
Ending retained earnings	\$ 2,447	1,468	3,915

See accompanying independent auditor's report.

PRESCOTT COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
Year ended June 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted disbursements by \$75,000.

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Other Supplementary Information

PRESCOTT COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUND
 Year ended June 30, 2004

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets				
Cash and pooled investments	\$ 5,745	8,382	9,615	4,512
Liabilities				
Liabilities:				
Other payables	\$ 5,745	8,382	9,615	4,512

See accompanying independent auditor's report.

Schedule 2

PRESCOTT COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUNDS
FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	2004	2003	2002	2001
Revenues:				
Local sources:				
Local tax	\$ 426,058	511,255	477,271	452,702
Tuition	37,595	41,294	26,207	20,944
Other	16,046	11,616	51,574	41,109
Intermediate sources	150	-	-	-
State sources	467,726	463,612	449,117	524,047
Federal sources	76,663	67,230	23,225	29,951
Total	<u>\$ 1,024,238</u>	<u>1,095,007</u>	<u>1,027,394</u>	<u>1,068,753</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 453,652	512,219	418,379	400,387
Special instruction	129,003	118,326	97,333	115,258
Other instruction	62,309	57,289	57,418	56,572
Support services:				
Student services	-	-	7,211	6,088
Instructional staff services	5,171	3,142	1,636	113
Administration services	140,753	138,267	140,972	158,291
Operation and maintenance of plant services	58,242	57,708	48,723	57,968
Transportation services	52,619	118,351	96,985	47,445
Central support services	-	-	88	-
Non-instructional programs	236	359	-	-
Other expenditures:				
Facilities acquisition	101,136	18,467	41,067	40,313
AEA flowthrough	32,909	35,085	34,449	37,083
Total	<u>\$ 1,036,030</u>	<u>1,059,213</u>	<u>944,261</u>	<u>919,518</u>

See accompanying independent auditor's report.

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**Van Maanen
& ASSOCIATES, P.C.**

Certified Public Accountants

705 Main St.
Pella, IA 50219
641-628-3737

Independent Auditor's Combined Report on Compliance
and on Internal Control over Financial Reporting

To the Board of Education of
Prescott Community School District:

We have audited the financial statements of Prescott Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated August 17, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Prescott Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part IV of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. There were no prior year statutory comments.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Prescott Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-04 is a material weakness. Prior year reportable conditions have all been resolved except for item II-A-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Prescott Community School District and other parties to whom Prescott Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Prescott Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Van Maanen & Associates, P.C.
Certified Public Accountants

August 17, 2004

PRESCOTT COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

YEAR ENDED June 30, 2004

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE

No matters were reported.

REPORTABLE CONDITIONS

II-A-04 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were done by the same person.

_____ Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances.

_____ Response - We will continue to review our procedures and implement additional controls where possible.

_____ Conclusion - Response accepted.

Part III: Findings and Questioned Costs for Federal Awards:

Not applicable since less than \$500,000 in Federal Awards.

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-04 Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2004.

IV-B-04 Certified Budget - Disbursements for the year ended June 30, 2004, did not exceed the amount budgeted.

IV-C-04 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

Part IV: Other Findings Related to Required Statutory Reporting: (continued)

- IV-D-04 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- IV-E-04 Business Transactions - No business transactions between the District and District officials or employees were noted.
- IV-F-04 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- IV-G-04 Board Minutes - Several invoices were missing signature to authorize payment. However, it appeared all payments were approved by the Board. Certain minutes were not published as required by Chapter 279.35 of the Code of Iowa. The purpose of bills should be published.
- Recommendation - All invoices should be initialed to show that payment has been authorized. The Board secretary should furnish a copy of the Board proceedings to be published within two weeks of each meeting. When a list of bills is presented for publication it should include the purpose of the bill.
- Response - All expenditures will be approved prior to payment and procedures will include adequate documentation. The minutes were properly submitted; the newspaper failed to publish them. The newspaper is now correcting their mistake. Future listings of bills will include the purpose.
- Conclusion - Response accepted.
- IV-H-04 Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
- IV-I-04 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the District's investment policy were noted.
- IV-J-04 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.